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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

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23 October 1981

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

THROUGH: National Intelligence Officer for Warning

FROM: Assistant National Intelligence Officer for
Western Europe

SUBJECT: Monthly Warning Assessment: Western Europe

1. Germany: The 10 October "peace march," although impressive, is only one of several factors that has contributed to existing divisions within the SPD. Other elements include the comparatively poor economic situation, which has brought about reduced confidence and a cutback in government spending, recent local election losses, and state-level resolutions against LRTNF. Pragmatic elements in the SPD are vying with ideologues in seeking a strategy to regain party support. Brandt wants to appeal to leftist, younger elements, while Schmidt rejects a leftward turn. To a degree, Schmidt is now perceived as being on the wrong side of the "peace" issue, but this is not critical to his support of LRTNF, which remains firm. His illness comes at a difficult time but still does not portend a loss of authority.

In the short term--until 1984--elements in the SPD that want to stay in power will probably prevail. The longer term future of the party is clouded. A new generation has moved into the SPD swelling its leftist faction. This generation, militants of the 60's, is more ideological and nationalistic and more inclined toward accommodation with Moscow.

Brandt probably understands that he could not be accepted again as Chancellor, but he appears concerned about vindicating his place in history and assuring that his policies are continued. We believe he will give up his role as head of the Socialist International in 1982 primarily to devote more time to party affairs.

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2. Greece: Papandreou's solid mandate assures governmental stability and gives him the wherewithal to implement domestic economic and administrative reforms, as well as pursue a foreign policy that is bound to cause strains in Greece's relation with the U.S. and the EC. The size of Papandreou's mandate may be either a force for moderation--he no longer has to prove himself--or encourage him to push through on his more radical campaign promises. The appointment of a cabinet made up of moderate Socialists, with some Marxists in minor posts, and the naming of a pragmatic technocrat to the key economic post could argue for the first scenario. On the other hand, all cabinet appointments need Karamanlis' approval and it is in Papandreou's interest to be reassuring at this time. Later on, if economic reforms prove unsuccessful, Papandreou could be expected to play the foreign policy card more aggressively.

Papandreou will try to strike a more independent pose in foreign affairs but will move cautiously in his relations with NATO and the U.S. There may be something of a breathing spell until negotiations on U.S. bases begin in March; he can be expected then to press for increased quids for the bases, and negotiations--already difficult under the preceding government--should be even more difficult. The nuclear weapons may eventually be removed and the government might take action against such U.S. installations as the FBIS base. Karamanlis would be likely to challenge Papandreou on moves involving NATO, the EC and the U.S., and in this he would have the support of the Greek military. The outlook for a settlement in Cyprus is pessimistic. Papandreou appears to be taking the new Socialist government in France as a domestic model and may eventually follow the earlier Gaullist practice of limiting military cooperation in NATO and stressing NATO's political role.

3. France: The devaluation of the franc against the mark and guilder should stabilize the franc's position in the EMS over the next few months. Further devaluations are likely if the inflation rate continues or gets worse. The government's program looks inflationary. Whether or not the nationalizations themselves prove inflationary depends on how the French stockholders of the nationalized companies react to the government's compensation methods. There are indications that the government may put off the nationalization of three major industrial groups which are foreign owned.

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